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Dear Ofwat Charging Team,

**Statutory consultation on changing Wholesale Charging Rules and Charges Scheme Rules to promote greater water efficiency – Wessex Water response**

Thank you for the opportunity to respond to this consultation.

We welcome Ofwat's continued focus on promoting water efficiency through charging arrangements. We agree that water scarcity is one of the most important challenges facing the sector. As we set out in our response to Ofwat's August 2025 consultation[1], we fully support the objective of ensuring that charging frameworks better reflect scarcity and provide the right long-term incentives in respect of water efficiency.

With this in mind, we are continuing to offer advice and support to retailers and customers to help improve water efficiency. This includes the launch of our Non-household Water Efficiency Innovation Fund, which provides direct financial support for businesses to help cut water consumption and drive sustainability.

We have also begun phasing out the discounts currently offered to large non-household users (known as a 'falling block' tariff or FBT). We believe this tariff structure will be more reflective of the long-run costs associated with providing water, as well as better supporting our water efficiency objectives. We intend to phase out these discounts by the start of the next AMP.

In this context, we broadly support Ofwat's proposed changes to the wholesale charging rules. While we agree with Ofwat that the existing rules are not a barrier to tariff reform, including phasing out or reforming large user tariffs (LUTs), we consider that the proposed changes will ensure that the principles of water efficiency and environmental protection are given sufficient prominence, as well as empowering companies to innovate in the tariff space.

We also welcome the decision not to mandate or prohibit specific charging structures through the rules. Companies need sufficient flexibility to design charging arrangements that reflect their regional circumstances, water resource position, customer base and operational context. As we noted in our previous response, companies should retain ownership of, and accountability for, their charging frameworks and policies. The two changes will strike a balance between promoting water efficiency while maintaining clarity and flexibility in the rules, particularly compared to some of the more prescriptive options in Ofwat's initial consultation.

Our detailed comments on the proposed changes to the wholesale charging rules are set out below.

[1] Consultation on promoting water efficiency in wholesale charges for business customers - Wessex Water response

Proposed amendment to Rule 15

We support the proposal to amend Rule 15 of the Wholesale Charging Rules (and Rule 13 of the Charges Scheme Rules). We think this is a pragmatic and proportionate step to ensure that charging structures reflect the long-run costs associated with meeting future resourcing challenges.

In our previous response, we explained that we already interpret Rule 15 as relating to all relevant costs of providing relevant services. This is one of the reasons why we no longer consider large user discounts to be appropriate in our area. Nevertheless, we agree that explicitly clarifying this in Rule 15 is helpful to emphasise the importance of water efficiency as an objective.

We previously expressed a preference for Ofwat's original Option 2, which would have removed Rule 15 and incorporated cost reflectivity into the broader charging principles in Rule 13. We thought that this would have given companies greater flexibility. However, we also supported Option 3, because explicit clarification that long-run costs include water scarcity costs is helpful.

Addition of a Supply-Demand Balance definition in the charging rules

We support the proposal to introduce a definition of "Supply-Demand Balance" into both the Wholesale Charging Rules and the Charges Scheme Rules. Particularly, the recognition that the supply-demand balance can vary across the whole company, at individual water resource zone level, and over the company's planning horizon.

Proposed amendment to Rule 16

We also support the decision to amend Rule 16 rather than remove it entirely (Option 4a). This provides helpful clarification that differential charges can reflect not only network-related cost differences, but also the broader environmental and societal benefits associated with water efficiency.

We consider this clarification valuable because it gives companies greater confidence to develop and trial innovative charging structures that promote water efficiency, while continuing to recognise legitimate differences in underlying costs. In particular, it will potentially make it easier for companies to implement Rising Block Tariffs in a more flexible way.

Proposed amendments to the Charges Scheme Rules

We support the proposal to make corresponding amendments to the Charges Scheme Rules. Although the original consultation focused primarily on wholesale charges for business users, the equivalent provisions in the Charges Scheme Rules raise similar issues for household charging. This will ensure there continues to be consistency across the household and non-household sectors.

Implementation and reporting

We note that Ofwat intends to require companies to report how they are incorporating the proposed changes into their charging arrangements for 2027-28.

As set out above, we have begun phasing out our existing Falling Block Tariff structure, and we will be continuing to do so in 2027-28. We consider that this change, while permissible under

the existing wholesale charging rules, is consistent with the stated intent of these changes as it will result in a wholesale tariff structure that is more reflective of the long-run costs associated with providing water, as well as providing stronger incentives on customers in respect of water efficiency.

We note that Ofwat's May 2026 conclusions document encourages water companies to move to a different charging framework as quickly as possible, achieving the right balance between charging principles, and to communicate effectively with their customers about the change. We have said that we will keep the timing of this phasing period under review as AMP8 progresses. However, at this stage, and considering the impacts on affected customers, our view is that a five-year transition period (under which larger user discounts will be fully phased out by the start of the 2030-31 charging year) remains appropriate. We consider that it is important to provide sufficient time for customers to consider these impacts and make behavioural or operational changes to mitigate them, taking advantage of the advice and support on offer. We also believe it is the *long-term* price signal that is most relevant in providing incentives for customers in respect of water efficiency.

As such, we currently expect that our 2027-28 charges will incorporate a further unwinding of large user discounts on broadly the same glide path as we have set out. We will confirm this as part of our wholesale charges publications over autumn and winter 2026.

Finally, we also note that other companies continue to offer single-rate tariffs (SRT) under which there are different volumetric rates for different usage levels, but customers are charged the same volumetric rate for every unit of water consumed. In our response to Ofwat's August 2025 consultation, we set out our view that this charging structure is substantively equivalent to a falling block tariff in terms of the incentives it provides to non-households (see in particular Annex 2 to our consultation response). Ofwat's May 2026 conclusions did not address this argument. We therefore remain of the view that, to the extent Ofwat is concerned that falling marginal costs weaken water efficiency signals, this applies equally to SRTs as to FBTs.

We trust these comments are helpful. We would of course be happy to discuss any of the points raised in this response.

Yours sincerely,

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Head of Economic Regulation